JUL 2025

THINK DIFFERENTLY
TO GET DIFFERENTIATED RESULTS

Quarterly Investment Update

Executive Summary

The second quarter of 2025 was a historic one for markets, driven by two key events: President Trump's sudden tariff announcement on April 2nd and renewed geopolitical tensions in the Middle East. The "Liberation Day" tariffs triggered a sharp selloff - most notably, the S&P 500 plunged 10% in just two days - but sentiment rebounded swiftly following a 90-day tariff pause and progress on trade negotiations with China. In contrast, despite headline risk, the Iran-Israel conflict had limited market impact, with investors reassured as long as the strategically critical Strait of Hormuz remained unaffected.

Markets recovered faster than many expected - just 41 days for equities to make another new high! - reminding investors of two key lessons: staying invested, and that markets can turn quickly, especially in the era of Trump tweets and policy uncertainty. Buying at all-time highs isn't necessarily a cause for concern; historically, gains often continue from such levels. Looking ahead, pro-growth policies such as tax cuts or deregulation could provide further upside in the second half. Still, with valuations stretched and the earnings outlook uncertain, we remain vigilant. The upcoming July 9th tariff deadline may offer important signals on trade policy direction.

We remain cautiously optimistic - constructive on risk assets like equities, while managing downside through defensive and alternative strategies. For income-focused investors, flexibility remains critical. The ability to allocate across income segments will be key to navigating volatility while continuing to deliver reliable returns.

Finexis Asset Management

MARKET REVIEW

The second quarter of 2025 was historic with two key risk events that shaped market dynamics.

Firstly, the reciprocal tariff announcement on April 2nd triggered a sharp selloff across risk assets. The US administration's subsequent response - pausing tariffs for 90 days and agreeing on trade deal principles with China - then led to a rapid recovery.

Additionally, the war between Iran and Israel had a relatively muted market impact, suggesting that the Middle East geopolitical risks were largely contained as long as the Strait of Hormuz was left untouched.

Q2 2025 saw strong rallies across most asset classes, with the exception of the U.S. dollar and oil.

S&P 500, led by the Magnificent 7, posted its quickest rebound back to all-time highs from a 15% drop on record. Following President Trump's Liberation Day tariff announcement, the S&P 500 plummeted 10% in 2 days, marking only the fourth such drop since World War II. The recovery was even more extraordinary, with the largest intra-quarter decline erased within the same quarter since at least 1928.

Overall, the S&P 500 gained 10.6% in Q2, its strongest performance since Q4 2023 and the 11th-best in 25 years.

Credit and Treasury bonds also eked out modest positive returns, but were outshone by equities as expected in a strong market recovery.

Gold continued to rally 5.8% in Q2, extending gains to 24.3% in the first half of the year; its best start to the year since 1974.

The US Dollar marked its weakest first half since 1979 with a 10.8% drop.

The bulk of the dollar decline occurred in April following tariff announcements. More importantly, unlike other asset classes, the dollar continued to weaken, dropping an additional 2.7% in June due to worries about the budget deficit and its status as a reserve currency.

Oil prices dropped sharply by 9.5% in Q2 25, driven by the threat of a broader Middle East conflict in June. Should a durable Iran-Israel ceasefire be established, oil prices could decline further to pre-June 13 levels around the $60 per barrel, supported by OPEC+ tapping into its spare capacity to expedite production increases.

Performance %	Q1	Q2
S&P 500	-4.3%	10.9%
Gold	19.0%	5.8%
Magnificent 7	-16.0%	21.0%
US Treasury bond	3.8%	1.4%
Dollar Index	-3.8%	-7.1%
Brent Oil	0.13%	-9.5%

Source: Bloomberg

Outlook: Cautious optimism after the strong rally

Looking ahead, we maintain our overall pro-risk positioning within our Tactical Asset Allocation strategy – remaining positive on equities, while also hedging the downside with a combination of defensive and alternative positioning e.g. Gold and Catastrophe bonds.

Within fixed income, we maintain a preference for credits while being underweight bond duration given US fiscal concerns are expected to drive volatility in long-end US Treasury yields.

In the currency space, we've been reducing exposures to USD. The greenback faces structural challenges from the funding of its "twin deficits" – fiscal budget and current account. Mounting concerns over the sustainability of U.S. finances are eroding confidence in the greenback, limiting its ability to attract capital flows with higher interest rates alone.

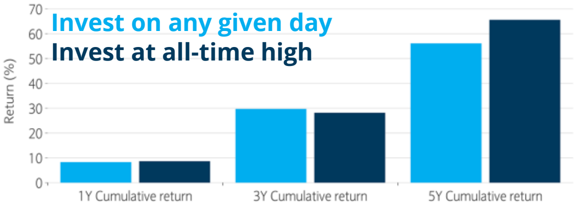
AFTER THE RALLY, NOW WHAT?

The rally in global equities since the April 'Liberation Day' bottom has been one of the fastest in recent memory – just *41 days* to make new all-time-highs! For investors, it is a reminder that:

1. Throughout history, markets have always recovered from their declines. If an investor is properly diversified and has a long-term view to invest, they can take advantage of market declines to accumulate more positions at a lower price.

2. Markets can turn quickly, especially in the era of policy uncertainty and Trump tweets. While staying invested remains key, an actively managed strategy can help to navigate, or even take advantage of these rapid shifts in sentiment.

Some investors are understandably cautious, given the strong gains. But it's worth noting that buying at all-time highs doesn't necessarily spell danger. Studies have shown that buying into new market highs does not have much difference from investing in other periods, all else equal.



Source: Barclays Private Bank

That said, the prevailing environment also matters. After the rally, there is now less of a cushion or margin of safety to absorb negative surprises, especially within the uncertain backdrop today. While we remain positive on risk assets for now, we pay attention to key market indicators to signal potential turning points ahead.

What could support markets from here?

The earlier chart suggests that buying into market highs often leads to further gains ahead. This is a possibility that could very well happen for the rest of the year.

Trade clarity is improving with the worst of trade uncertainty following Trump's Liberation Day' tariffs now appearing to be behind us. On 2nd July, the US announced an outline of a deal with Vietnam to reduce tariffs on exports from previously announced 46% to 20%. **July 9th, which is President Trump's big tariff deadline and an important market signpost for us**: more announcement of 'good deals' could reinforce risk sentiment, while any re-escalation of trade tensions could quickly dampen sentiment.

Policy tailwinds is also one to look forward to. While 1H 2025 focused on the more challenging parts of Trump policy, like trade tariffs and job cuts, markets could shift their attention to pro-growth agendas like deregulation or tax cuts, which would boost the economy and corporate earnings.

Of course, we continue to be in an environment of elevated uncertainty, and **we are paying attention to a few risk factors such as:**

Valuations are stretched after the strong rally. The S&P 500 trades near 22x forward Price-To-Earnings, which is close to 20-year highs, leaving little room for error if earnings disappoint. Besides the US, our portfolios are also invested in other regions which could offer better value.

Earnings have so far been resilient, driven by AI-driven productivity gains. But it remains to be seen how companies are navigating the higher costs associated with tariffs and tighter labour conditions – the upcoming earnings season is one to watch for clues.

While recession risks have receded alongside tariff uncertainties, we are watching out for any signs of softening labour market, which could be an ominous indication of risks ahead. Until then, we take comfort that the latest jobless rate declined to 4.1%, indicating that the economy is still holding up.

We remain cautiously optimistic after the strong rally, positioning with a prudent, balanced approach to benefit from continued market upside while keeping two eyes on risks ahead.

INCOME AMID UNCERTAINTY

Income amid trade and geopolitical tensions

Equities were the best-performing asset class in Q2 2025. However, that belies the volatility and drama that happened during the quarter caused by Trump's Tariff Tantrum, which led to equities tanking double-digit in days. Investors then saw the TACO trade with markets rebounding as tariff concerns abated.

Any equity investor who locked away their portfolio in a drawer would have seen strong gains since then. But the reality was that it was hard for many to ignore the headlines. Any investor who had exited during the declines would have locked in losses.

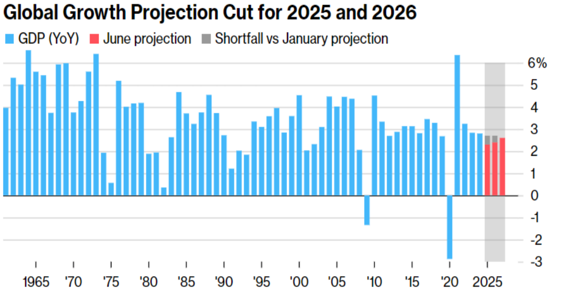
Uncertainty persisted through the quarter due to ongoing Middle East tensions, including the US launching attacks on Iran. Income markets were not spared. To make things more challenging, even traditional safe-haven assets like US Treasuries experienced volatility as long-term yields rose and fell with each headline.

While fixed income markets were not immune to the Tariff Tantrum, their lower volatility and high income cushioned the impact. That is where income portfolios come in, to allow investors to sit through the investing journey with more comfort. Investors who maintained a diversified approach and avoided concentrated bets on any single region or asset class were better positioned to weather these shocks. Even then, income investors cannot rest on their laurels.

Just as investors were getting settled after the events in Q2, they are faced with yet another risk event as they approach the 9th July tariff pause. In such a backdrop, what can income investors do to ensure they meet their objectives? The ability to allocate across income segments - especially toward resilient areas like select Asian credit or High-quality securitized assets - remains crucial for more assured income generation.

Income amid slowing growth

The OECD and World Bank both downgraded global growth forecasts for 2025 to 2.9%*, citing lasting effects from tariffs, tighter financial conditions, and weaker business confidence. On the flip side, inflation remained sticky in services. Inflation concerns were fueled by fiscal risks as the US Congress debated new tax cuts as well as the flow-through effects of tariffs.



Source: Bloomberg

The opposing forces of slowing growth and sticky inflation mean that the Fed faces a policy dilemma for its dual mandate of managing employment and inflation. The Fed cannot address both issues at once, which raises the stakes for both the economy and markets.

Long-end yields remain elevated, reducing investor confidence in one of the classical building blocks of income portfolios: long-term bonds. And every day that the king dollar continues to be under pressure, it will prompt more real money investors to hedge their dollar risk, creating even more pressure on the dollar. These dynamics make it difficult for income investors to rely on capital appreciation or speculative interest rate bets for returns.

In this environment, we maintain a preference for higher-quality, shorter-duration credit. We are actively avoiding potential 'duration traps', where investors in long-term bonds may face capital losses in the event of inflation surprises.

*Global Economy Set for Weakest Run Since 2008 Outside of Recessions

HOW ARE WE POSITIONED?

Equity (Green) **Bonds (Blue)**

Key Themes	Allocation
Balanced Approach Amid Heightened Uncertainty Adopting a prudent balanced approach as current market conditions present a tug-of-war between lingering tailwinds and mounting risks. Tailwinds come in the form of still supportive corporate earnings, AI-driven productivity optimism, and a resilient U.S. labour market. However, heightened uncertainty stems from tariffs and retaliatory threats from major economies.	**US equities** **Global equities** (e.g. Europe, Japan)
Diversification Into Emerging Opportunities Financial markets operate in cycles. The end of the easy money era means looking beyond popular markets that did well during the previous broad-based growth to find tomorrow's winners. Focus on high-growth markets driven by their own distinctive economic trajectories and coupled with attractive valuations.	**Emerging Market equities** (e.g. China, India)
Shifting Gears On Income Having benefitted from the strong performance of high-yield bonds, we are gradually transitioning to higher quality fixed income positions while maintaining attractive yields. Investors can still achieve solid income in today's environment but requires a more careful balance between generating returns and managing volatility.	**Developed-Market Credit** **Asian High-Yield Credit** **Emerging Market Credit**

ASSET ALLOCATION STRATEGY

-- Underweight | – Slight Underweight | = Neutral | + Slight Overweight | ++ Overweight

Equity: Regions

United States

Continued earnings growth remains supportive but moderated by stretched valuations and policy uncertainty.

Europe

Cheaper valuations and ECB rate cuts are tailwinds but sluggish growth and political risks warrant a balanced approach.

Japan

With global market volatility and potential retaliation against US trade policies, a neutral allocation to Japan mitigates uncertain outcomes.

Asia Pacific ex Japan

More pro-active stimulus measures embarked by the Chinese government provides better tailwinds for Asia equities on the back of their better valuations.

Emerging Markets

Maintain preference for high-growth markets at attractive valuations e.g. China

Fixed Income

Global

Focus on government bonds' flight to quality characteristic to buffer portfolio volatility during periods of stress.

Investment Grade Corporate

Maintain a diversified exposure and taking advantage of mispricing opportunities in developed-market investment grade bonds.

US High Yield

Maintaining minimal exposure due to as IG bonds offer relatively better risk-reward to obtain income while mitigating default risk.

Asia

While Asia credit continues to offer attractive all-in-yields and supportive fundamentals, we maintain a neutral allocation after realizing strong income and capital appreciation.

Emerging Markets Debt

Hard currency bias to focus on return from credit while limiting exposure to emerging market currencies. Short-duration bonds to mitigate volatility from more uncertain interest rate path.

MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	4.53	10.33	10.57	8.78
United States	5.08	6.20	13.63	10.72
Europe	2.40	24.38	7.69	7.02
Japan	1.73	13.13	6.46	5.34
Asia Pacific ex Japan	5.66	14.08	5.70	7.17
Emerging Markets	6.12	15.52	5.21	6.82

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	1.89	7.27	1.17	2.35
Global Aggregate (H)	0.96	2.81	2.33	3.30
High Yield	1.97	4.65	4.95	6.38
Asia	1.32	4.21	3.16	3.39
Emerging Markets	1.91	4.94	3.42	5.48

Note: (H) Currency Hedged

Equity Markets	MTD	YTD	10Y	20Y
Australia	3.75	13.68	8.55	8.61
Brazil	6.47	31.21	4.10	4.49
China “A”	3.82	3.29	-0.46	10.72
China “H”	3.59	20.40	-0.52	6.32
Hong Kong	3.98	21.56	2.60	6.25
India	2.80	7.70	9.75	10.77
Indonesia	-1.78	1.18	4.40	9.63
Korea	16.28	41.07	4.13	6.18
Malaysia	2.85	1.32	1.37	6.06
Singapore	3.28	15.27	6.67	7.96
Taiwan	6.91	9.72	13.80	10.99
Thailand	-4.09	-15.63	0.38	7.42
Vietnam	3.12	6.90	9.02	9.01

Currencies	MTD	YTD	10Y	20Y
SGD/USD	1.52	7.40	0.58	1.42
EUR/USD	3.88	13.84	0.56	-0.13
JPY/USD	0.00	9.15	-1.61	-1.30

Commodities	MTD	YTD	10Y	20Y
Gold	0.42	25.86	10.91	10.66
Oil	7.11	-9.22	0.91	0.71

*As of 30 June 2025. Source: Bloomberg. **Total return in USD**.*
10 and 20 year returns are annualized.

Equity Sectors	MTD	YTD	10Y	20Y
Gold	3.03	53.54	12.81	5.20
Energy	4.85	0.77	5.45	6.25
Technology	9.24	8.59	21.02	14.65
Healthcare	1.48	1.13	6.94	8.84
Financials	3.19	9.19	12.41	6.18

"In investing, what is comfortable is rarely profitable.“

Rob Arnott

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